

## Business Situation

### Final Estimates for the Fourth Quarter of 2002

THE picture of the economy shown in the final estimates of the national income and product accounts (NIPA's) for the fourth quarter of 2002 is virtually the same as in the preliminary estimates released last month. Revisions to the components of GDP were offsetting and generally small (see the section "Revisions").

According to both the final and the preliminary estimates, real gross domestic product (GDP) increased 1.4 percent in the fourth quarter (table 1 and chart 1).<sup>1</sup> (Over the past 20 years, the average revision to GDP growth, without regard to the sign, from the preliminary estimate to the final estimate was 0.3 percentage point.) In the third quarter, real GDP had increased 4.0 percent.

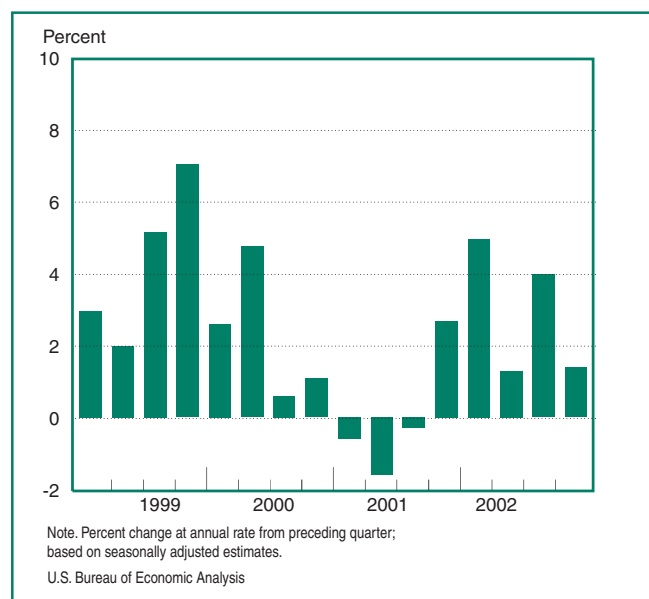
The slowdown in real GDP growth from the third quarter to the fourth was mainly accounted for by consumer spending and exports.<sup>2</sup>

- Consumer spending contributed 1.19 percentage points to fourth-quarter growth after contributing

1. Quarterly estimates in the NIPA's are expressed at seasonally adjusted annual rates, unless otherwise specified. Quarter-to-quarter dollar changes are differences between these published estimates. Percent changes are calculated from unrounded data and annualized. "Real" estimates are in chained (1996) dollars, and price indexes are chain-type measures.

*Daniel Larkins and Raymen G. Labella prepared this article.*

**Chart 1. Real Gross Domestic Product**



more than twice as much to third-quarter growth (table 2). Auto and truck purchases decreased after surging in the third quarter in response to aggressive sales-incentive programs that included generous rebates and zero-rate financing. In contrast to the downturn in purchases of durable goods, purchases of nondurable goods accelerated, and purchases of services increased about as much as in the third quarter.

- Exports turned down and subtracted from growth in the fourth quarter after adding to it in the third. (Imports accelerated and subtracted more from growth in the fourth quarter than in the third.)
- Inventory investment also contributed to the slowdown in GDP growth, as inventory stocks grew

2. In this article, "consumer spending" is shorthand for the NIPA series "personal consumption expenditures," "government spending" is shorthand for "government consumption expenditures and gross investment," and "inventory investment" is shorthand for "change in private inventories."

**Table 1. Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers**  
[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	2002	2002				2002			
	IV	I	II	III	IV	I	II	III	IV
<b>Gross domestic product</b> .....	<b>9,518.2</b>	<b>114.4</b>	<b>29.2</b>	<b>93.2</b>	<b>32.6</b>	<b>5.0</b>	<b>1.3</b>	<b>4.0</b>	<b>1.4</b>
Less: Exports of goods and services .....	1,061.6	8.8	34.9	12.2	-16.1	3.5	14.3	4.6	-5.8
Plus: Imports of goods and services .....	1,593.8	29.9	75.8	12.8	28.1	8.5	22.2	3.3	7.4
<b>Equals: Gross domestic purchases</b> .....	<b>10,005.5</b>	<b>132.9</b>	<b>62.6</b>	<b>93.9</b>	<b>70.8</b>	<b>5.6</b>	<b>2.6</b>	<b>3.9</b>	<b>2.9</b>
Less: Change in private inventories .....	25.8	69.5	33.8	13.9	7.0	.....	.....	.....	.....
<b>Equals: Final sales to domestic purchasers</b> .....	<b>9,970.1</b>	<b>72.1</b>	<b>31.6</b>	<b>80.1</b>	<b>64.0</b>	<b>3.0</b>	<b>1.3</b>	<b>3.3</b>	<b>2.6</b>
Personal consumption expenditures .....	6,637.9	49.8	28.6	67.5	28.0	3.1	1.8	4.2	1.7
Durable goods .....	1,010.6	-16.1	4.8	51.7	-21.8	-6.3	2.0	22.8	-8.2
Nondurable goods .....	1,950.0	36.4	-0.5	4.9	24.2	7.9	-0.1	1.0	5.1
Services .....	3,707.0	25.6	24.0	20.8	20.0	2.9	2.7	2.3	2.2
Private fixed investment .....	1,588.5	-2.0	-3.8	-1.0	16.9	-0.5	-1.0	-0.3	4.4
Nonresidential .....	1,185.3	-18.0	-7.3	-2.4	6.6	-5.8	-2.4	-0.8	2.3
Structures .....	212.6	-9.5	-11.5	-13.5	-5.6	-14.2	-17.6	-21.4	-9.9
Equipment and software .....	992.1	-6.6	7.7	15.8	14.9	-2.7	3.3	6.7	6.2
Residential .....	395.9	12.6	2.5	1.0	8.8	14.2	2.7	1.1	9.4
Government consumption expenditures and gross investment .....	1,735.0	22.8	6.0	12.3	19.4	5.6	1.4	2.9	4.6
Federal .....	631.4	10.6	10.9	6.4	16.3	7.4	7.5	4.3	11.0
National defense .....	413.2	10.5	7.3	6.7	10.7	11.6	7.8	6.9	11.0
Nondefense .....	218.3	0.2	3.6	-0.2	5.6	0.4	6.9	-0.3	11.1
State and local .....	1,104.0	12.2	-4.6	5.9	3.4	4.6	-1.7	2.2	1.2
<b>Addendum: Final sales of domestic product</b> .....	<b>9,483.1</b>	<b>54.5</b>	<b>-1.5</b>	<b>79.3</b>	<b>25.9</b>	<b>2.4</b>	<b>-0.1</b>	<b>3.4</b>	<b>1.1</b>

NOTE. Chained (1996) dollar series are calculated as the product of the chain-type quantity index and the 1996 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1996) dollar levels and residuals, which measure the extent of nonadditivity in each table, are shown in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are shown in NIPA table S.1. (See "Selected NIPA Tables," which begins on page D-2 in this issue.)

more slowly than in the third quarter. Inventory investment contributed about half as much to GDP growth in the fourth quarter as in the third.<sup>3</sup>

The dampening effects of these components on

GDP growth were partly offset by a step-up in Federal Government spending and by an upturn in private fixed investment.

**Table 2. Contributions to Percent Change in Real Gross Domestic Product**  
[Seasonally adjusted at annual rates]

	2002			
	I	II	III	IV
<b>Percent change at annual rate:</b>				
Gross domestic product .....	5.00	1.30	4.00	1.40
<b>Percentage points at annual rates:</b>				
Personal consumption expenditures .....	2.22	1.22	2.93	1.19
Durable goods .....	-0.55	0.16	1.74	-0.72
Nondurable goods .....	1.57	-0.02	0.22	1.01
Services .....	1.20	1.08	0.97	0.90
Gross private domestic investment .....	2.53	1.16	0.55	0.93
Fixed investment .....	-0.07	-0.15	-0.03	0.65
Nonresidential .....	-0.66	-0.27	-0.08	0.24
Structures .....	-0.44	-0.53	-0.62	-0.25
Equipment and software .....	-0.22	0.26	0.53	0.49
Residential .....	0.60	0.12	0.05	0.41
Change in private inventories .....	2.60	1.31	0.58	0.28
Net exports of goods and services .....	-0.75	-1.40	-0.01	-1.59
Exports .....	0.33	1.29	0.45	-0.59
Goods .....	-0.23	0.99	0.28	-0.82
Services .....	0.56	0.30	0.17	0.23
Imports .....	-1.08	-2.69	-0.47	-1.00
Goods .....	-0.40	-2.74	-0.40	-0.71
Services .....	-0.68	0.05	-0.07	-0.30
Government consumption expenditures and gross investment .....	1.04	0.27	0.56	0.85
Federal .....	0.47	0.47	0.29	0.70
National defense .....	0.46	0.32	0.29	0.46
Nondefense .....	0.01	0.16	-0.01	0.25
State and local .....	0.56	-0.21	0.27	0.15

NOTE: More detailed contributions to percent change in real gross domestic product are shown in NIPA table 8.2. Contributions to percent change in major components of real gross domestic product are shown in tables 8.3 through 8.6.

• Federal Government spending increased more than twice as much as in the third quarter; it added 0.70 percentage point to fourth-quarter growth after adding 0.29 percentage point to third-quarter growth. Nondefense spending turned up, and defense spending accelerated. In contrast, spending by state and local governments slowed.

• Private fixed investment increased in the fourth quarter after declining for 2 years. Investment in nonresidential structures continued to be a source of weakness, but it was more than counterbalanced by investment in nonresidential equipment and software, which increased for the third quarter in a row, and by residential investment, which increased for the fourth quarter in a row.

The price index for gross domestic purchases increased 1.8 percent, 0.2 percentage point higher than the preliminary estimate. In the third quarter, the price index had increased 1.2 percent. Food and energy prices accounted for half of the step-up from the third quarter to the fourth.

3. In the NIPA's, the *change* in private inventories (inventory investment) affects the *level* of GDP; the "*change in the change*" in private inventories affects the *change* (or growth) in GDP.

## Revisions

The most notable of the small, offsetting revisions to the components of GDP were a downward revision to exports of services and an upward revision to consumer purchases of services (table 3). The downward revision subtracted 0.12 percentage point from real GDP growth; the upward revision added the same amount.

The revision to exports mainly reflected the incorporation (on a "best-change" basis) of revised third-quarter data and newly available fourth-quarter data on services from BEA's international transactions accounts.<sup>4</sup>

The revision to consumer purchases mainly reflected the incorporation of newly available data for November on electricity and gas usage and unit-values from the Energy Information Administration.

The upward revision to the price index for gross domestic purchases primarily reflected a revision to the implicit price for financial services; it reflected the incorporation of newly available "call report" data from the Federal Deposit Insurance Corporation.

The final NIPA estimates for the fourth quarter also include revised third-quarter estimates of wages and salaries, personal taxes, and contributions for social insurance.

- Wages and salaries were revised down, reflecting the incorporation of the most recently available tabulations of private wages and salaries from the state unemployment insurance program by the Bureau of Labor Statistics.

4. The relationship between estimates in the international transactions accounts and corresponding estimates in the NIPA's is shown in Appendix A, table 2, on page D-74.

Incorporating the source data on a best-change basis provides accurate measures of the *change* in the estimates for all periods, but it results in *levels* of estimates that are not fully consistent with the source data. In general, BEA incorporates source data on a best-change basis in order to preserve accurate estimates of growth and consistent time series. (See also the box "Incorporating Source Data on the Basis of Best Change," Eugene P. Seskin and David F. Sullivan, "Annual Revision of the National Income and Product Accounts," SURVEY OF CURRENT BUSINESS 80 (August 2000): 16.)

- Both personal taxes and contributions for social insurance were revised down, reflecting the revision to wages and salaries.

As a result of these revisions, real disposable personal income is now estimated to have increased 1.8 percent in the third quarter (revised down from 3.1 percent) and 2.4 percent in the fourth quarter (revised down from 2.7 percent).

**Table 3. Revisions to Change in Real Gross Domestic Product and Prices, Fourth Quarter 2002**

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Final estimate minus Preliminary estimate	
	Preliminary estimate	Final estimate	Percentage points	Billions of chained (1996) dollars
<b>Gross domestic product</b> .....	<b>1.4</b>	<b>1.4</b>	<b>0</b>	<b>-1.3</b>
Less: Exports .....	-4.4	-5.8	-1.4	-3.9
Goods .....	-11.1	-11.5	-0.4	-0.8
Services .....	12.3	8.0	-4.3	-3.0
Plus: Imports .....	7.2	7.4	0.2	0.7
Goods .....	6.1	6.2	0.1	0.4
Services .....	12.4	13.0	0.6	0.3
<b>Equals: Gross domestic purchases</b> .....	<b>2.8</b>	<b>2.9</b>	<b>0.1</b>	<b>2.7</b>
Less: Change in private inventories .....				1.1
<b>Equals: Final sales to domestic purchasers</b> .....	<b>2.5</b>	<b>2.6</b>	<b>0.1</b>	<b>1.8</b>
Personal consumption expenditures .....	1.5	1.7	0.2	3.8
Durable goods .....	-8.5	-8.2	0.3	0.9
Nondurable goods .....	5.1	5.1	0	0.3
Services .....	1.9	2.2	0.3	2.7
Private fixed investment .....	4.5	4.4	-0.1	-0.7
Nonresidential .....	2.5	2.3	-0.2	-0.8
Structures .....	-9.8	-9.9	-0.1	0
Equipment and software .....	6.6	6.2	-0.4	-0.7
Residential .....	9.4	9.4	0	0
Government consumption expenditures and gross investment .....	4.9	4.6	-0.3	-1.3
Federal .....	11.2	11.0	-0.2	-0.2
National defense .....	11.4	11.0	-0.4	-0.3
Nondefense .....	10.8	11.1	0.3	0.1
State and local .....	1.6	1.2	-0.4	-1.1
<b>Addendum:</b>				
Final sales of domestic product .....	1.2	1.1	-0.1	-2.2
Gross domestic purchases price index .....	1.6	1.8	0.2	
GDP price index .....	1.6	1.8	0.2	

NOTE: The final estimates for the fourth quarter of 2002 incorporate the following revised or additional major source data that were not available when the preliminary estimates were prepared.

Personal consumption expenditures: Revised retail sales for December, bank services data for the quarter, and electricity and natural gas usage.

Nonresidential fixed investment: Revised construction put-in-place for November and December.

Residential fixed investment: Revised construction put-in-place for November and December.

Change in private inventories: Revised manufacturers' and trade inventories for December.

Exports and imports of goods and services: Revised international transactions accounts data on services for the third quarter and new data on services for the fourth.

Government consumption expenditures and gross investment: Revised State and local construction put-in-place for November and December.

Wages and salaries: Revised private wages and salaries for the third quarter, and revised employment, average hourly earnings, and average weekly hours for December.

GDP prices: Revised export and import prices for October through December, revised unit-value index for petroleum imports for December, and revised prices of single-family houses under construction for the quarter.

## Gross National Product

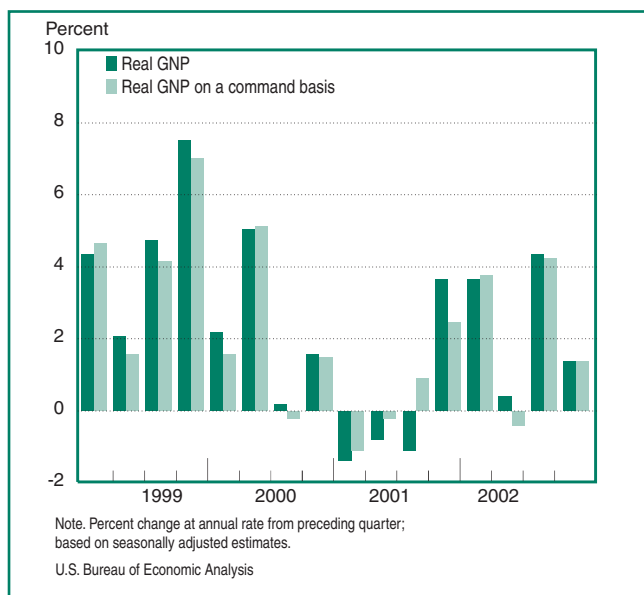
Real gross national product (GNP) increased 1.4 percent in the fourth quarter, the same as real GDP; a decline in receipts from the rest of the world was offset by a decline in payments to the rest of the world (table 4).<sup>5</sup> The decreases in both receipts and payments were more than accounted for by receipts and payments of interest income.

“Command-basis” GNP also increased 1.4 percent (chart 2). This variant of GNP measures the change in the purchasing power in world markets of the goods and services produced by the U.S. economy—in other words, the change in the quantity of goods and services that could be purchased by the United States as a result of its current production.

Changes in command-basis GNP reflect changes in the prices of traded goods and services as summarized by movements in the “terms of trade”—the ratio of export prices to import prices. In the fourth quarter, the

5. GNP is a measure of goods and services produced by labor and property supplied by U.S. residents. It is equal to GDP plus income receipts from the rest of the world less income payments to the rest of the world.

**Chart 2. Real Gross National Product**



terms of trade were unchanged.<sup>6</sup>

The national saving rate, which is measured as gross saving as a percentage of GNP, held at 14.6 percent, the same as the revised estimate for the third quarter. The rate had peaked at 18.5 percent in the third quarter of 2000.

6. In the estimates of command-basis GNP, the current-dollar value of the sum of exports of goods and services and income receipts is deflated by the implicit price deflator (IPD) for the sum of imports of goods and services and income payments.

The terms of trade is measured by the following ratio, with the decimal point shifted two places to the right: In the numerator, the IPD for the sum of exports of goods and services and of income receipts; in the denominator, the IPD for the sum of imports of goods and services and of income payments.

Changes in the terms of trade reflect the interaction of several factors, including movements in exchange rates, changes in the composition of the traded goods and services, and changes in producers' profit margins. For example, if the U.S. dollar depreciates against a foreign currency, a foreign manufacturer may choose to absorb this cost by reducing the profit margin on the product it sells to the United States, or it may choose to raise the price of the product and risk a loss in market share.

**Table 4. Relation of Real Gross Domestic Product, Real Gross National Product, and Real Command-Basis Gross National Product**

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	2002	2002				2002			
	IV	I	II	III	IV	I	II	III	IV
<b>Gross domestic product</b> .....	<b>9,518.2</b>	<b>114.4</b>	<b>29.2</b>	<b>93.2</b>	<b>32.6</b>	<b>5.0</b>	<b>1.3</b>	<b>4.0</b>	<b>1.4</b>
Plus: Income receipts from the rest of the world .....	257.5	-4.6	9.0	9.5	-3.8	-7.2	15.7	15.9	-5.7
Less: Income payments to the rest of the world .....	264.2	26.1	29.0	1.3	-5.3	58.7	58.2	1.9	-7.6
<b>Equals: Gross national product</b> ....	<b>9,512.1</b>	<b>84.0</b>	<b>9.2</b>	<b>101.2</b>	<b>34.2</b>	<b>3.7</b>	<b>0.4</b>	<b>4.4</b>	<b>1.4</b>
Less: Exports of goods and services and income receipts from the rest of the world .....	1,314.4	3.3	43.9	22.3	-19.8	1.1	14.6	7.0	-5.8
Plus: Command-basis exports of goods and services and income receipts from the rest of the world <sup>1</sup> .....	1,345.4	6.3	24.4	20.0	-20.2	1.9	7.6	6.1	-5.8
<b>Equals: Command-basis gross national product</b> .....	<b>9,543.1</b>	<b>86.9</b>	<b>-10.3</b>	<b>99.0</b>	<b>33.8</b>	<b>3.8</b>	<b>-0.4</b>	<b>4.3</b>	<b>1.4</b>
<b>Addendum:</b>	Index number								
Terms of trade <sup>2</sup> .....	102.4	0.2	-1.6	-0.2	0.0	0.8	-6.0	-0.8	0.0

1. Exports of goods and services and income receipts deflated by the implicit price deflator for imports of goods and services and income payments.

2. The terms of trade is the following ratio, with the decimal point shifted two places to the right: In the numerator, the implicit price deflator (IPD) for the sum of exports of goods and services and of income receipts; in the denominator, the IPD for the sum of imports of goods and services and of income payments.

NOTE. See note to table 1 for an explanation of chained (1996) dollar series. Levels of these series are shown in NIPA tables 1.10 and 1.11.

## Corporate Profits

Profits from current production increased \$25.1 billion (3.2 percent at a quarterly rate) in the fourth quarter after decreasing in the first three quarters of 2002 (table 5).<sup>7</sup> The after-tax measure of current-production profits also increased in the fourth quarter after decreasing earlier in the year.

Profits of domestic nonfinancial corporations increased \$26.8 billion (6.0 percent); unit costs decreased, while prices and output increased.<sup>8</sup> The increase in prices followed four consecutive declines. Profits of domestic financial corporations increased slightly.

Profits from the rest of the world decreased \$2.0 billion.<sup>9</sup> Both receipts and payments posted modest increases, but the increase in payments was larger.

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$14.0 billion, a little more

than it had decreased in the third quarter.<sup>10</sup> The ratio of cash flow to nonresidential fixed investment, an indicator of the extent to which the current level of investment could be financed by internally generated funds, increased to 86.7 percent from 86.0 percent. (During the expansion of the 1990s, the ratio averaged 82.2 percent.)

**Domestic industry profits.** The current-production measure of profits is not available at detailed industry levels, because industry detail for the capital consumption adjustment does not exist. Consequently, industry profits are best measured by profits with inventory valuation adjustment.

For nonfinancial industries, the largest increase in this measure of profits was posted by wholesale trade (chart 3). Retail trade profits, in contrast, decreased.

Manufacturing profits increased about as much as in the third quarter. The largest increases were posted

7. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; it is shown in NIPA tables 1.9, 1.14, 1.16, and 6.16C (see "Selected NIPA Tables," which begins on page D-2) as corporate profits with inventory valuation and capital consumption adjustments.

Percent changes in profits are shown at quarterly, not annual, rates.

8. "Output" here is the gross product of nonfinancial corporations. It measures the contribution, or value added, of these businesses to the Nation's output, and it is measured as the sum of incomes generated by these businesses.

9. Profits from the rest of the world is calculated as (1) receipts by U.S. residents of earnings from their foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations minus (2) payments by U.S. affiliates of earnings to their foreign parents plus dividends paid by U.S. corporations to unaffiliated foreign residents. These estimates include capital consumption adjustments (but not inventory valuation adjustments) and are derived from BEA's international transactions accounts.

10. Cash flow from current production is undistributed profits with inventory valuation and capital consumption adjustments plus the consumption of fixed capital.

**Table 5. Corporate Profits**  
[Quarterly estimates, seasonally adjusted]

	Billions of dollars (annual rate)						Percent change from preceding period <sup>1</sup>			
	Level		Change from preceding period							
	2002	2002	2001	2002	2002		2001	2002	2002	
		IV			III	IV			III	IV
<b>Profits from current production</b> .....	<b>787.4</b>	<b>796.1</b>	<b>-56.5</b>	<b>55.8</b>	<b>-14.0</b>	<b>25.1</b>	<b>-7.2</b>	<b>7.6</b>	<b>-1.8</b>	<b>3.2</b>
Domestic industries.....	668.1	682.0	-63.9	87.2	-15.0	27.1	-9.9	15.0	-2.2	4.1
Financial.....	209.7	207.6	-9.5	36.2	-3.4	0.3	-5.2	20.9	-1.6	0.1
Nonfinancial.....	458.4	474.4	-54.4	51.0	-11.7	26.8	-11.8	12.5	-2.5	6.0
Rest of the world.....	119.3	114.1	7.5	-31.5	1.0	-2.0	5.2	-20.9	0.9	-1.8
Receipts (inflows).....	177.0	187.3	-31.4	4.6	12.5	1.4	-15.4	2.7	7.2	0.8
Payments (outflows).....	57.7	73.3	-38.9	36.1	11.4	3.6	-64.2	166.6	19.6	5.0
IVA.....	-6.9	-8.5	20.0	-11.9	-9.4	6.6	.....	.....	.....	.....
CCAdj.....	129.1	109.7	35.7	72.6	-15.2	-7.9	.....	.....	.....	.....
Profits before tax.....	665.2	694.9	-112.1	-5.0	10.6	26.4	-14.3	-0.7	1.6	3.9
Profits tax liability.....	213.3	222.4	-60.1	14.0	1.0	7.7	-23.2	7.0	0.5	3.6
Profits after tax.....	451.9	472.5	-52.0	-19.0	9.5	18.7	-10.0	-4.0	2.1	4.1
<b>Profits from current production less tax liability</b> .....	<b>574.1</b>	<b>573.7</b>	<b>3.6</b>	<b>41.8</b>	<b>-15.0</b>	<b>17.4</b>	<b>0.7</b>	<b>7.9</b>	<b>-2.6</b>	<b>3.1</b>
Cash flow from current production.....	967.3	968.7	38.1	55.5	-12.0	14.0	4.4	6.1	-1.2	1.5
<b>Domestic industry profits:</b>										
Corporate profits of domestic industries with IVA.....	539.0	572.3	-99.6	14.6	0.2	35.0	-16.0	2.8	0.0	6.5
Financial.....	217.3	216.5	-10.4	26.7	-2.4	0.4	-5.2	14.0	-1.1	0.2
Nonfinancial.....	321.7	355.8	-89.3	-12.0	2.6	34.6	-21.1	-3.6	0.8	10.8
Manufacturing.....	92.6	108.9	-76.4	9.2	8.6	8.4	-47.8	11.0	9.3	8.4
Transportation and public utilities.....	16.7	21.5	-8.9	-11.0	-3.9	8.3	-24.5	-39.7	-22.9	63.2
Wholesale trade.....	47.3	58.9	-17.3	2.5	-0.3	14.4	-28.0	5.7	-0.7	32.4
Retail trade.....	81.2	75.1	5.7	2.1	-3.5	-7.4	7.8	2.6	-4.0	-9.0
Other.....	83.9	91.5	7.8	-14.9	1.7	10.9	8.6	-15.0	2.2	13.5
<b>Unit price, costs, and profits of nonfinancial corporations:</b>										
Unit price.....	1.036	1.037	0.012	-0.005	-0.001	0.002	.....	.....	.....	.....
Unit labor cost.....	0.680	0.679	0.007	-0.015	-0.001	0.000	.....	.....	.....	.....
Unit nonlabor cost.....	0.269	0.270	0.017	0.002	0.002	-0.001	.....	.....	.....	.....
Unit profits from current production.....	0.086	0.088	-0.011	0.007	-0.003	0.004	.....	.....	.....	.....

1. Quarterly percent changes are not annualized.

NOTE. Levels of these and other profits series are shown in NIPA tables 1.14, 1.16, 6.16C, and 7.15.

IVA Inventory valuation adjustment  
CCAdj Capital consumption adjustment

by petroleum refiners and by manufacturers of fabricated metal products. The largest decreases were posted by manufacturers of industrial machinery and equipment and by manufacturers of motor vehicles; both industries continued to record losses in the fourth quarter. For industrial machinery, the loss was the 6<sup>th</sup> in a row; for motor vehicles, the 11<sup>th</sup>.

Profits in the transportation and public utility group turned up sharply. Transportation registered positive profits after four consecutive losses. In communications, which is included in this industry group, losses continued for the 12<sup>th</sup> consecutive quarter, but they were not as severe as in the third quarter. Profits of utilities increased after decreasing.

Profits of “other” nonfinancial corporations increased much more than in the third quarter. Producers of crude oil and of services were mainly responsible for the step-up.

For financial industries, increases in the profits of commercial banks and of property and casualty insurance companies were largely offset by lower earnings of Federal Reserve banks.

**Profits before and after tax.** The fourth-quarter increase in profits before tax (PBT) was similar to the increase in profits from current production, as changes in the inventory valuation and capital consumption adjustments were offsetting.<sup>11</sup> (Earlier in the year, the capital consumption adjustment had been bigger—

11. Profits before tax is based on inventory and depreciation practices used in tax accounting, whereas the current-production measure—which excludes nonoperating items, such as special charges and capital gains and losses—is based on depreciation of fixed assets and inventory withdrawals valued at current cost.

that is, more negative—and had not been offset by the inventory valuation adjustment.<sup>12</sup>)

Profits after tax (PBT less profits tax liability) increased 4.1 percent in the fourth quarter, about twice as much as in the third quarter and more than at any time since the end of 1999.

**The year 2002.** For the year as a whole, profits from current production rebounded \$55.8 billion (7.6 percent), to \$787.4 billion; in 2001, they had decreased about that amount.<sup>13</sup> Profits of domestic corporations more than accounted for the upturn. Profits of domestic nonfinancial corporations increased \$51.0 billion after decreasing \$54.4 billion, as unit profits and output turned up. Profits of domestic financial corporations increased \$36.2 billion after decreasing \$9.5 billion.

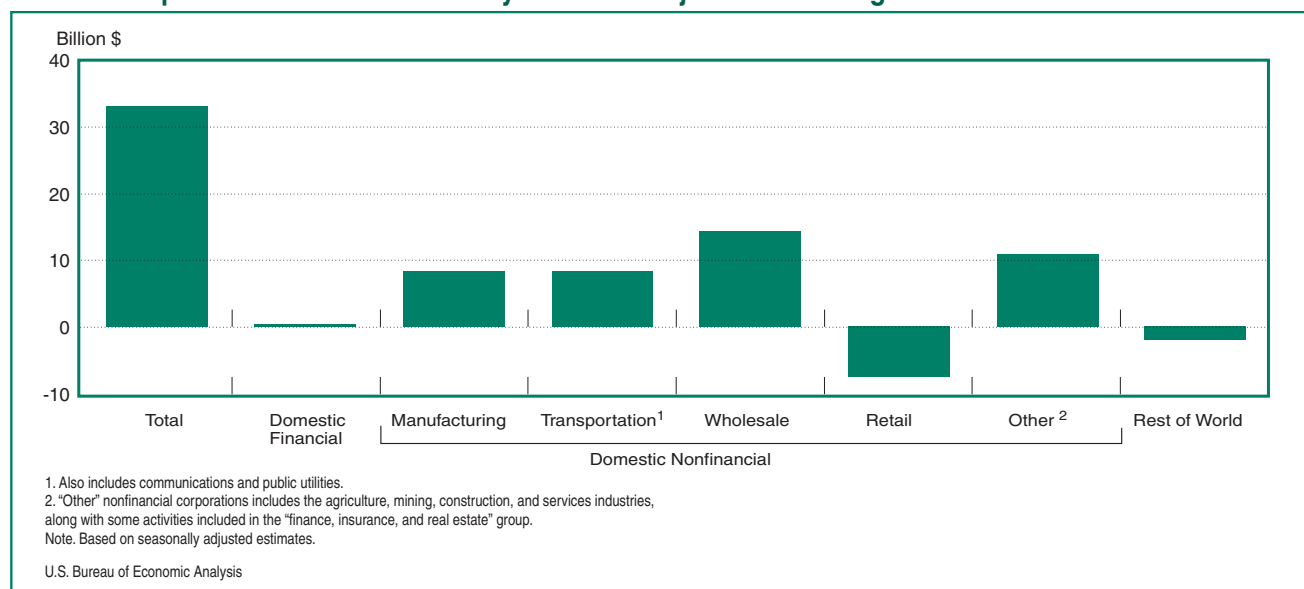
Profits from the rest of the world turned down, as payments by domestic affiliates to foreign parents turned up sharply.

Domestic profits with inventory valuation adjustment increased \$14.6 billion after decreasing \$99.6 billion. Nonfinancial profits decreased much less than in 2001, and financial profits turned up. The improvement in nonfinancial profits was accounted for by manufacturing and, to a lesser extent, by wholesale trade.

12. Since the fourth quarter of 2001, changes in the capital consumption adjustment have been dominated by the effect of tax law changes that allow accelerated depreciation for certain investments. See the box “Effects of the Job Creation and Worker Assistance Act of 2002,” “Business Situation,” SURVEY 82 (June 2002): 14.

13. These changes are calculated from *annual* levels for 2001 and 2002. Current-production profits in the fourth quarter of 2002 were \$15.3 billion (1.9 percent) less than in the fourth quarter of 2001.

**Chart 3. Corporate Profits with Inventory Valuation Adjustment: Change from 2002:III to 2002:IV**



In contrast to the increase in current-production profits, PBT decreased a little in 2002. The difference between the two measures of profits was more than accounted for by the capital consumption adjustment. The divergent movements in current-production prof-

its and PBT carried through to after-tax profits: PBT less tax liability decreased 4.0 percent in 2002 after decreasing more than twice as much in 2001; current-production profits less tax liability increased 7.9 percent after a much smaller increase.

## Government Sector

The combined current deficit of the Federal Government and of state and local governments increased \$33.1 billion, to \$298.3 billion, in the fourth quarter after increasing \$24.5 billion in the third (table 6).<sup>14</sup> The fourth-quarter increase was more than accounted for by the Federal current deficit, which increased more in the fourth quarter than in the third. The state and local current deficit decreased in the fourth quarter after increasing in the third.

### Federal

The Federal Government current deficit increased \$37.2 billion in the fourth quarter after increasing \$14.9 billion in the third. Current expenditures turned up more than current receipts.

**Current receipts.** Federal current receipts increased \$5.6 billion in the fourth quarter after decreasing \$19.6 billion in the third. The upturn reflected a smaller decrease in personal tax and nontax receipts in the fourth quarter than in the third and accelerations in corporate profits accruals and in contributions for social insurance. In contrast, indirect business tax and nontax accruals turned down.

Personal tax and nontax receipts decreased \$6.0 billion after decreasing \$25.3 billion. The smaller decrease in the fourth quarter than in the third was mostly accounted for by personal income taxes. Within personal income taxes, nonwithheld income taxes decreased \$3.6 billion after decreasing \$13.7 billion, and withheld income taxes decreased \$2.3 billion after decreasing \$11.1 billion.

Corporate profits tax accruals increased \$6.4 billion after increasing \$0.9 billion. The acceleration reflected the pickup in domestic corporate profits before tax.

Contributions for social insurance increased \$6.1 billion after increasing \$2.6 billion. The acceleration was more than accounted for by contributions for social security (old-age, survivors, disability, and health

**Table 6. Government Sector Current Receipts and Expenditures**

(Billions of dollars, seasonally adjusted at annual rates)

	Level	Change from preceding quarter				
	2002	2002				
	IV	I	II	III	IV	
Current receipts .....	2,887.3	-120.4	11.0	-7.3	17.9	
Current expenditures .....	3,185.6	72.4	50.1	17.2	51.0	
Current surplus or deficit(-) .....	-298.3	-192.7	-39.1	-24.5	-33.1	
Social insurance funds.....	49.9	-12.4	-14.3	-1.6	1.9	
Other.....	-348.2	-180.4	-24.8	-22.9	-35.0	
<b>Federal Government</b>						
Current receipts .....	1,869.7	-107.6	-1.0	-19.6	5.6	
Personal tax and nontax receipts.....	825.3	-150.7	-18.2	-25.3	-6.0	
Corporate profits tax accruals.....	187.5	27.6	9.7	0.9	6.4	
Indirect business tax and nontax accruals.....	111.5	1.1	1.8	2.2	-0.9	
Contributions for social insurance.....	745.4	14.5	5.6	2.6	6.1	
Current expenditures .....	2,117.4	59.5	48.8	-4.7	42.8	
Consumption expenditures .....	608.9	22.7	14.7	8.8	19.1	
National defense .....	403.2	16.1	10.4	6.4	14.3	
Nondefense .....	205.8	6.7	4.4	2.3	4.9	
Transfer payments (net) .....	948.5	46.0	10.7	6.5	14.4	
To persons .....	934.0	38.5	22.9	7.4	9.6	
To the rest of the world .....	14.5	7.5	-12.2	-0.9	4.8	
Grants-in-aid to State and local governments .....	315.8	2.9	17.3	-4.6	10.8	
Net interest paid.....	202.1	-13.1	6.4	-9.1	-3.7	
Subsidies less current surplus of government enterprises.....	42.1	1.1	-0.3	-6.4	2.2	
Subsidies .....	46.3	1.8	0.6	-0.5	1.3	
Of which: Agricultural subsidies.....	22.0	1.0	0.1	-0.8	1.2	
Less: Current surplus of government enterprises .....	4.2	0.7	1.0	5.7	-0.8	
Less: Wage accruals less disbursements.....	0.0	0.0	0.0	0.0	0.0	
Current surplus or deficit (-).....	-247.7	-167.1	-49.8	-14.9	-37.2	
Social insurance funds.....	50.0	-12.3	-14.4	-1.6	1.9	
Other.....	-297.7	-154.8	-35.4	-13.3	-39.1	
<b>State and local governments</b>						
Current receipts .....	1,333.4	-9.9	29.2	7.8	23.1	
Personal tax and nontax receipts.....	271.4	-22.3	3.3	2.4	3.7	
Corporate profits tax accruals.....	34.9	4.3	1.5	0.2	1.2	
Indirect business tax and nontax accruals.....	701.8	5.3	7.1	9.6	7.3	
Contributions for social insurance.....	9.5	0.1	0.1	0.0	0.1	
Federal grants-in-aid.....	315.8	2.9	17.3	-4.6	10.8	
Current expenditures .....	1,384.0	15.8	18.5	17.4	19.0	
Consumption expenditures .....	1,050.1	9.5	12.9	9.0	10.5	
Transfer payments to persons.....	349.5	8.0	7.3	8.0	10.8	
Net interest paid.....	-1.9	-0.1	-0.1	0.0	0.1	
Less: Dividends received by government .....	0.5	0.0	0.1	0.0	0.0	
Subsidies less current surplus of government enterprises.....	-13.2	-1.5	-1.6	0.4	-2.4	
Subsidies .....	-0.4	-1.5	-0.9	1.2	-2.1	
Less: Current surplus of government enterprises .....	12.8	0.0	0.7	0.8	0.3	
Less: Wage accruals less disbursements.....	0.0	0.0	0.0	0.0	0.0	
Current surplus or deficit (-).....	-50.6	-25.6	10.7	-9.6	4.1	
Social insurance funds.....	-0.1	0.0	0.1	0.0	0.0	
Other.....	-50.5	-25.6	10.7	-9.7	4.1	
<b>Addendum:</b>						
Net lending or net borrowing (-) <sup>1</sup> .....	-398.5	-200.0	-35.7	-20.9	-36.5	
Federal .....	-271.7	-172.7	-53.7	-10.5	-38.2	
State and local .....	-126.8	-27.3	18.0	-10.4	1.7	

14. The combined current surplus or deficit of the Federal Government and state and local governments is the NIPA measure of net saving by government. Net saving equals gross saving less consumption of fixed capital. These estimates are shown in NIPA table 5.1.

1. "Net lending or borrowing" is conceptually similar to "net financial investment" in the flow of funds accounts prepared by the Board of Governors of the Federal Reserve System. The two measures differ primarily because government net lending or borrowing is estimated from data for transactions, whereas net financial investment is estimated from data for financial assets. There are also small conceptual differences, such as the classification of the Federal Government's railroad retirement and veterans life insurance programs.

insurance trust funds), which increased \$6.1 billion after increasing \$2.9 billion, reflecting an acceleration in wage and salary disbursements.

Indirect business tax and nontax accruals decreased \$0.9 billion after increasing \$2.2 billion. The downturn was more than accounted for by a downturn in custom duties, which decreased \$1.8 billion after increasing \$3.0 billion. In contrast, nontaxes turned up, increasing \$0.3 billion after decreasing \$0.7 billion.

**Current expenditures.** Current expenditures increased \$42.8 billion in the fourth quarter after decreasing \$4.7 billion in the third. The upturn was accounted for by upturns in grants-in-aid to state and local governments and in “subsidies less current surplus of government enterprises” and accelerations in consumption expenditures and in transfer payments. In addition, net interest paid decreased less than in the third quarter.

Grants-in-aid to state and local governments increased \$10.8 billion after decreasing \$4.6 billion. Grants for state Medicaid programs, for education, for labor training and services, and for housing and community services all turned up.

“Subsidies less current surplus of government enterprises” turned up, increasing \$2.2 billion after decreasing \$6.4 billion. The upturn was mostly accounted for by a downturn in “current surplus of government enterprises.” The current surplus of the Postal Service turned down, decreasing \$0.8 billion after increasing \$4.9 billion; the third-quarter surplus had been boosted by the postal rate increase for all classes of mail that went into effect on June 30, 2002.

Consumption expenditures increased \$19.1 billion after increasing \$8.8 billion. The acceleration was mostly accounted for by an acceleration in defense consumption expenditures. Within defense consumption expenditures, services increased \$16.0 billion after increasing \$4.7 billion. Within services, “other services” (which includes expenditures for research and development, transportation of materials, travel of persons, and for other services) increased \$17.3 billion after a \$3.5 billion increase; in contrast, compensation of employees turned down, decreasing \$1.9 billion after a \$0.9 billion increase. Durable goods turned down, decreasing \$1.1 billion after a \$1.4 billion increase; spending on parts for aircraft, for ships, for electronics, and for other durable goods turned down, and spending on parts for missiles decelerated.

Nondefense consumption expenditures increased \$4.9 billion after an increase of \$2.3 billion. The acceleration was mostly accounted for by services. Within services, compensation of employees increased \$3.4 billion after increasing \$1.9 billion. The acceleration was the result of increased employment at the Trans-

portation Security Administration: In the third quarter, 16,200 employees were hired, and in the fourth quarter, 35,800 more employees were hired.

“Transfer payments (net)” increased \$14.4 billion after increasing \$6.5 billion. Transfer payments to the rest of the world turned up, increasing \$4.8 billion after decreasing \$0.9 billion. Transfer payments to persons accelerated, increasing \$9.6 billion after increasing \$7.4 billion. The acceleration was accounted for by accelerations in Medicare, food stamps, and social security (old-age, survivors, and disability insurance). The acceleration in food stamps was partly due to a 1.4-percent cost-of-living adjustment that took effect in October.

Net interest paid decreased \$3.7 billion after a decrease of \$9.1 billion. Gross interest paid decreased \$0.9 billion after decreasing \$7.8 billion, primarily reflecting an upturn in interest paid to persons and business.

### State and local

The state and local government current deficit decreased \$4.1 billion in the fourth quarter after increasing \$9.6 billion in the third. Current receipts accelerated more than current expenditures.

**Current receipts.** State and local government current receipts increased \$23.1 billion after increasing \$7.8 billion. The acceleration was more than accounted for by the upturn in Federal grants-in-aid.

Personal tax and nontax receipts increased \$3.7 billion after increasing \$2.4 billion. The acceleration was mostly accounted for by personal income taxes, which increased \$2.8 billion after increasing \$1.5 billion.

Corporate profits tax accruals accelerated, increasing \$1.2 billion after increasing \$0.2 billion.

Indirect business tax and nontax accruals decelerated, increasing \$7.3 billion after increasing \$9.6 billion. The deceleration was more than accounted for by sales taxes, which increased \$1.4 billion after increasing \$6.6 billion. Within sales taxes, the deceleration was accounted for by slowdowns in general sales taxes and tobacco taxes.

**Current expenditures.** Current expenditures increased \$19.0 billion after increasing \$17.4 billion. Transfer payments to persons and consumption expenditures accelerated, while “subsidies less current surplus of government enterprises” turned down.

Transfer payments to persons increased \$10.8 billion after an increase of \$8.0 billion. The acceleration was mostly accounted for by a pickup in Medicaid payments.

Consumption expenditures increased \$10.5 billion after increasing \$9.0 billion. The acceleration was mostly accounted for by nondurable goods, which



increased \$3.7 billion after increasing \$2.4 billion. Within nondurable goods, petroleum products accelerated.

“Subsidies less current surplus of government enterprises” decreased \$2.4 billion after increasing \$0.4 billion. This downturn was more than accounted for by subsidies, which decreased \$2.1 billion after increasing \$1.2 billion, reflecting California electricity subsidies. (The NIPA’s treat the special purchases of electricity made by California, net of receipts from commercial and residential users, as a subsidy payment.) In the fourth quarter, subsidies turned negative as California recovered subsidies paid in earlier periods.

### Net lending or net borrowing

“Net lending or net borrowing(–)” is an alternative measure of the government fiscal position. Net lending is the financing requirement of the government sector and is derived as the current surplus plus the consumption of fixed capital and “capital transfers received (net)” less gross investment and net purchases of nonproduced assets.<sup>15</sup>

Net borrowing increased \$36.5 billion in the fourth quarter after increasing \$20.9 billion in the third. Federal net borrowing increased \$38.2 billion as a result of an increase in the current deficit. State and local net borrowing decreased \$1.7 billion, mainly as a result of the decrease in the current deficit.

Government gross investment increased \$0.5 billion after increasing \$3.5 billion. The deceleration was mostly accounted for by state and local government gross investment, which increased \$0.4 billion after increasing \$2.7 billion. Federal Government gross investment also decelerated, increasing \$0.1 billion after increasing \$0.8 billion.

### The government sector in 2002

The combined fiscal position of the Federal Government and of state and local governments shifted from a surplus of \$40.7 billion in 2001 to a deficit of \$251.4 billion in 2002. The shift was mostly accounted for by a shift in the Federal fiscal position.

The Federal fiscal position decreased \$271.9 billion in 2002, from a current surplus of \$72.0 billion to a current deficit of \$199.9 billion. Receipts decreased and expenditures increased.

Federal current receipts decreased \$132.8 billion, to \$1,875.6 billion. Personal tax and nontax receipts decreased \$163.9 billion. In contrast, contributions for social insurance increased \$21.2 billion, corporate profit tax accruals increased \$9.6 billion, and indirect business taxes increased \$0.3 billion.

Federal current expenditures increased \$139.1 billion, to \$2,075.5 billion. “Transfer payments (net)” increased \$89.5 billion, consumption expenditures increased \$58.1 billion, and grants-in-aid to state and local governments increased \$28.3 billion. In contrast, net interest paid decreased \$30.3 billion, and “subsidies less current surplus of government enterprises” decreased \$6.6 billion.

The state and local government current deficit increased \$20.2 billion, to \$51.5 billion, in 2002. Current expenditures increased more than current receipts.

State and local current receipts increased \$43.6 billion, to \$1,304.9 billion. Federal grants-in-aid increased \$28.3 billion, indirect business taxes and nontax accruals increased \$25.4 billion, corporate profits tax accruals increased \$4.4 billion, and contributions for social insurance increased \$0.2 billion. In contrast, personal tax and nontax receipts decreased \$14.6 billion.

State and local current expenditures increased \$63.8 billion, to \$1,356.4 billion. Consumption expenditures increased \$40.8 billion, and transfer payments to persons increased \$31.2 billion. In contrast, “subsidies less current surplus of government enterprises” decreased \$8.1 billion, and net interest paid decreased \$0.1 billion.

Total gross investment of the Federal Government and state and local governments increased \$16.0 billion, to \$351.9 billion.

Federal gross investment increased \$7.5 billion, to \$107.2 billion. Defense equipment and software increased \$5.7 billion, and nondefense structures increased \$1.9 billion.

State and local gross investment increased \$8.5 billion, to \$244.7 billion. Structures increased \$10.6 billion, while equipment and software decreased \$2.1 billion.

**Net lending or net borrowing.** Net borrowing increased \$305.0 billion, to \$351.9 billion, in 2002. Most of the increase was accounted for by a shift in the Federal Government fiscal position from net lending of \$58.9 billion in 2001 to net borrowing of \$224.5 billion in 2002. State and local government net borrowing increased \$21.6 billion, to \$127.4 billion.

15. Net lending or net borrowing estimates are shown in NIPA tables 3.1–3.3.